

**SANBORN ELECTRIC AND
TELECOMMUNICATIONS UTILITY**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

December 31, 2014 and 2013

**T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants**

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**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

OFFICIALS

December 31, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees		
James P. Cravens	Chairman	June 30, 2019
Terry Boelter	Secretary	June 30, 2015
Rick Maranell	Trustee	June 30, 2017
Utility Officials		
Jim Zeutenhorst	General Manager	Indefinite



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Sanborn Electric and Telecommunications Utility
Sanborn, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Sanborn Electric and Telecommunications Utility (the Utility), a component unit of the City of Sanborn, Iowa, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Sanborn Electric and Telecommunications Utility, as of December 31, 2014 and 2013,

and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-7 and 25-27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The accompanying statements of operating revenues and expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operating revenues and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating revenues and expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015 on our consideration of Sanborn Electric and Telecommunications Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bancroft Municipal Utilities' internal control over financial reporting and compliance.

T.P. Anderson & Company, P.C.

September 23, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Sanborn Electric and Telecommunications Utility (the Utility) provides this Management's Discussion and Analysis of the Utility's financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2014. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues increased 5.3%, or approximately \$111,000 from 2013 to 2014. This resulted from increased kilowatt hours sold during the year and increased electric rates.
- ◆ The Utility's operating expenses increased 4.9%, or approximately \$94,000 from 2013 to 2014. The increase in expense resulted from increased fuel cost expense.
- ◆ The Utility's net position increased approximately \$117,000 during 2014. The increase was primarily attributed to continued strong operations at the Utility.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

Fund Financial Statements report the Utility's operations by providing information about its most significant fund.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year and the funding progress for the retiree health care plan.

The schedules contained in the Supplementary Information provide detailed information about operating revenues and expenses.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

Fund Financial Statements

The Sanborn Electric and Telecommunications Utility utilizes one kind of fund:

Proprietary funds account for the Utility's enterprise activities. Enterprise funds are used to report business type activities. The Utility maintains one enterprise fund to provide information for its activities. The electric fund is considered to be a major fund of the utility.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses and changes in fund net position, and a statement of cash flows.

The condensed statement of net position, shown below, shows how assets and liabilities have changed over the past two years. In 2014, total assets decreased by approximately \$43,700 and liabilities decreased by \$160,000 resulting in the increase in net position of approximately \$117,000 dollars during the year.

Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2014	2013
Current assets	\$ 1,785	1,883
Capital assets (net of depreciation)	4,486	4,542
Other assets	<u>1,716</u>	<u>1,606</u>
Total assets	<u>7,987</u>	<u>8,031</u>
Long-term debt outstanding	3,055	3,241
Other liabilities	<u>507</u>	<u>482</u>
Total liabilities	<u>3,562</u>	<u>3,723</u>
Net position:		
Net investment in capital assets	1,890	1,706
Restricted	785	776
Unrestricted	<u>1,750</u>	<u>1,826</u>
Total net position	<u>4,425</u>	<u>4,308</u>
Total liabilities and net position	<u>\$ 7,987</u>	<u>8,031</u>

INDIVIDUAL MAJOR FUND ANALYSIS

As Sanborn Electric and Telecommunications Utility completed the year, it reported net position of \$4.4 million.

The following analysis focuses on the change in net position for Sanborn Electric and Telecommunications Utility.

Net position improved slightly in 2014 as was budgeted for and anticipated by management.

Changes in Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2014	2013
Operating revenues	\$ 2,198	2,087
Operating expenses	<u>2,012</u>	<u>1,919</u>
Operating income	186	168

Net non-operating revenues (expenses)	30	29
Transfers	(99)	(67)
Contributed capital	<u>-</u>	<u>-</u>
Change in net position	117	130
Net position, beginning of year	<u>4,308</u>	<u>4,178</u>
Net position, end of year	<u>\$ 4,425</u>	<u>4,308</u>

BUDGETARY HIGHLIGHTS

Sanborn Electric and Telecommunications Utility did not amend its budget during the year. The Utility's disbursements were within budgeted limits for 2014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2014, Sanborn Electric and Telecommunications Utility had approximately \$4.5 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a decrease (including additions and deletions net of depreciation) of approximately \$56,000 or 1.2% under last year.

Capital Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2014	2013
Buildings and improvements	\$ 42	45
Equipment and vehicles	1,947	1,927
Substation	<u>2,497</u>	<u>2,570</u>
Total	<u>\$ 4,486</u>	<u>4,542</u>

Additions to the capital assets for 2014 were mainly additional distribution equipment.

Sanborn Electric and Telecommunications Utility had depreciation expense of \$217,922 and total accumulated depreciation of \$3,390,933 at December 31, 2014.

LONG TERM DEBT/LIABILITIES

At December 31, 2014, the Utility had \$3,285,000 in revenue bonds outstanding compared to \$3,475,000 at December 31, 2013. The reduction in revenue bonds resulted from accelerating the payoff of certain revenue bonds while making principle payments on the remaining revenue bonds as required in the original bond agreements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Utility continued to improve its financial position during the current year. However the current condition of the economy in the state continues to be a concern. Keeping those concerns in mind, management completed a rate study in 2013 and a rate increase implemented in 2014. The Utility anticipates a balanced budget in 2015. The Utility continues to work with its electricity providers to maximize electric utility revenues while limiting expenses.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Sanborn Electric and Telecommunications Utility's finances and to provide accountability for the money the Utility receives. If you have questions about this report or need additional financial information, contact the Utility's administration office at 102 Main Street, Sanborn, Iowa.

BASIC FINANCIAL STATEMENTS

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**BALANCE SHEETS
AS OF DECEMBER 31:**

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	1,473,968	1,537,772
Net Accounts Receivable - Trade	199,878	233,154
Accrued Interest Receivable	1,208	1,513
Prepaid Expenses	4,315	4,315
Inventories	105,133	105,942
Total Current Assets	<u>1,784,502</u>	<u>1,882,696</u>
 Capital Assets:		
Capital Assets (net of Accumulated Depreciation)	4,486,405	4,542,149
Total Capital Assets	<u>4,486,405</u>	<u>4,542,149</u>
 Other Assets:		
Investment in Joint Ventures	712,914	605,744
Restricted Assets:		
Cash and Cash Equivalents - Note Funds	640,409	638,896
Cash and Cash Equivalents - Revolving loan fund	12,061	4,650
Cash and Cash Equivalents - LIHEAP Funds	9,831	8,735
Investment - Note Funds	132,880	132,880
Economic Development Loans Receivable	208,075	215,007
Total Other Assets	<u>1,716,170</u>	<u>1,605,912</u>
 Total Assets	<u><u>\$ 7,987,077</u></u>	<u><u>8,030,757</u></u>

See Notes to Financial Statements

	2014	2013
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 174,631	\$ 166,577
Accounts Payable - City of Sanborn	-	3,931
Accrued Compensated Absences	8,116	5,602
Customer Deposits and Credit Balances	67,604	53,491
Accrued Interest Payable	51,660	52,967
Deferred Revenue	9,831	8,735
Revenue Notes - Current	195,000	190,000
Total Current Liabilities	506,842	481,303
Non-Current Liabilities:		
OPEB Liabilities	13,100	10,407
Revenue Notes - Non-Current (net of Bond Discounts)	3,041,768	3,230,708
Total Non-Current Liabilities	3,054,868	3,241,115
Total Liabilities	3,561,710	3,722,418
Net Position		
Net investment in capital assets	1,890,046	1,706,046
Restricted for:		
Debt Service	773,289	771,777
Revolving Loan Fund	12,061	4,650
Unrestricted	1,749,971	1,825,866
Total Net Position	4,425,367	4,308,339
Total Liabilities and Net Position	\$ 7,987,077	8,030,757

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31:

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Electric Energy Sales	\$ 2,191,560	2,077,156
Other Sales	5,971	9,458
Total Operating Revenues	<u>2,197,531</u>	<u>2,086,614</u>
Operating Expenses:		
Power Production	1,390,813	1,309,581
Distribution	125,990	108,836
Commercial	60,232	60,540
Sales	71	155
Administrative and General	435,183	439,341
Total Operating Expenses	<u>2,012,289</u>	<u>1,918,453</u>
Operating Income	<u>185,242</u>	<u>168,161</u>
Non-Operating Revenues (Expenses):		
Interest and Dividend Income	11,602	12,698
Joint Venture Net Income	156,808	129,056
Interest Expense	(138,634)	(161,436)
Grant Income	668	48,323
Net Non-Operating Revenues	<u>30,444</u>	<u>28,641</u>
Net Income Before Transfers and Contributed Capital	215,686	196,802
Transfers to Other Entities	<u>(98,658)</u>	<u>(66,696)</u>
Increase in Net Position	117,028	130,106
Net Position at Beginning of Period	<u>4,308,339</u>	<u>4,178,233</u>
Net Position at End of Period	<u><u>\$ 4,425,367</u></u>	<u><u>4,308,339</u></u>

See Notes to Financial Statements

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31:

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Cash Received from Customers	\$ 2,246,022	2,064,290
Cash Payments to Suppliers for Goods and Services	(1,548,739)	(1,438,574)
Cash Payments to Employees for Services	(235,496)	(232,934)
Net Cash Provided by Operating Activities	<u>461,787</u>	<u>392,782</u>
Cash Flows From Non-Capital Financing Activities:		
Transfers to Other Entities	(98,658)	(66,697)
Net Cash (Used) by Non-Capital Financing Activities	<u>(98,658)</u>	<u>(66,697)</u>
Cash Flows From Capital and Related Financing Activities:		
Capital Received from Joint Ventures	49,943	54,697
Purchases and Construction of Capital Assets	(162,178)	(68,883)
Revenue Bond Proceeds	-	450,000
Principal Paid on Revenue Notes	(190,000)	(865,000)
Interest Paid on Revenue Notes	(133,880)	(154,571)
Grant Income	668	48,323
Net Cash (Used) by Capital and Related Financing Activities	<u>(435,447)</u>	<u>(535,434)</u>
Cash Flows From Investing Activities:		
Interest and Dividends on Investments	11,602	12,698
Principal Disbursed on Economic Development Loan	(21,344)	(46,950)
Principal Received on Economic Development Loan	28,276	23,751
Net Cash Provided (Used) by Investing Activities	<u>18,534</u>	<u>(10,501)</u>
Net (Decrease) in Cash and Cash Equivalents	(53,784)	(219,850)
Cash and Cash Equivalents at Beginning of Period	<u>2,190,053</u>	<u>2,409,903</u>
Cash and Cash Equivalents at End of Period	<u>\$ 2,136,269</u>	<u>2,190,053</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position:		
Cash and Cash Equivalents	\$ 1,473,968	1,537,772
Cash and Cash Equivalents - Restricted Note Funds	640,409	638,896
Cash and Cash Equivalents - Restricted Revolving Loan Funds	12,061	4,650
Cash and Cash Equivalents - Restricted LIHEAP Funds	9,831	8,735
Total Cash and Cash Equivalents	<u>\$ 2,136,269</u>	<u>2,190,053</u>

See Notes to Financial Statements

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

STATEMENTS OF CASH FLOWS - continued
FOR THE YEARS ENDED DECEMBER 31:

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 185,242	168,161
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	217,922	211,043
(Increase) Decrease in Assets:		
Accounts Receivable	33,276	(3,734)
Prepaid Expenses	-	(577)
Inventories	808	(2,601)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	8,054	28,057
Accounts Payable - City of Sanborn	(3,931)	(16,817)
Accrued Compensated Absences	2,514	(1,037)
OPEB Liability	2,693	2,693
Customer Deposits and Credit Balances	14,113	8,154
Deferred Revenue	1,096	(560)
Net Cash Provided by Operating Activities	<u><u>\$ 461,787</u></u>	<u><u>392,782</u></u>

See Notes to Financial Statements

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sanborn Electric and Telecommunications Utility (the Utility) is a component unit of the City of Sanborn, Iowa, whose funds are reported under separate cover utilizing a fiscal year ending June 30. The Board of Trustees operates the Utility by the authority of Chapter 388 of the Code of Iowa. The Utility provides electric service to the residents and businesses of the City of Sanborn. Cable television, internet and telephone service is provided through the Utility's involvement with the Community Cable Television Agency of O'Brien County. The Board of Trustees is appointed by the mayor and approved by the city council to six-year terms.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America applicable for proprietary funds of governmental entities as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, the Utility has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of the Utility are organized on the basis of a propriety enterprise funds. The Utility utilizes one fund (its major fund) to account for the electric utilities provided to the community's residents.

Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net positions, financial position, and cash flows. Under the accrual method of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds.

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for the Utility result from charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interest Capitalization

The Utility capitalizes interest costs incurred on funds used to construct capital assets. The capitalized interest is recorded as part of the asset to which it relates and is written off over the asset's estimated useful life.

Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the statement of net position:

Cash and Cash Equivalents – The Utility considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased, as well as all certificates of deposit, to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts – The Utility uses the allowance method to account for uncollectible accounts receivable. Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts and related accounts receivable write-offs. A 1.50% per month penalty is charged for accounts older than 30 days. The allowance for uncollectible accounts had a balance of \$26,180 as of December 31, 2014 and 2013.

Inventories – Inventories are stated at the lower of cost or market using the first-in, first-out method.

Capital Assets – Capital assets are carried at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense. The Utility computes depreciation on buildings and equipment using the straight-line method. Lives for the buildings are twenty to fifty years, while the equipment lives range from three to thirty years.

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

Net Position

Net positions are shown in three components:

- Net investment in capital assets- This category of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement in those assets.
- Restricted- This category of net position results when constraints placed on net position use are either externally imposed by outside creditors, others or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted- This category of net position consists of net position not meeting the definition of the two proceeding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits in financial institutions at December 31, 2014 and 2013 (including certificates of deposit totaling \$920,000 for both years then ended) were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district.

As of December 31, 2014 and 2013, the Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

NOTE 3 – INVESTMENT IN JOINT VENTURES

The Utility is a partner in the Community Cable Television Agency of O'Brien County (TCA), a joint venture with the Cities of Primghar, Hartley and Paullina to provide cable television, telephone and internet services to the citizens of the participating communities. TCA operates on a fiscal year ending each June 30, and is audited separately. As a result, the Utility's share of the net income of TCA reflects the most recent audited amounts as of June 30, 2014. Audited financial statements of TCA are available at their office located at 102 South Eastern, Sanborn, Iowa. Summary financial information of the joint venture as of December 31, 2014 and 2013 is as follows:

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

	<u>2014</u>	<u>2013</u>
Assets	<u>\$ 1,725,971</u>	<u>1,557,551</u>
Liabilities	268,395	274,918
Equity	<u>1,457,576</u>	<u>1,282,633</u>
Total liabilities and equity	<u>\$ 1,725,971</u>	<u>1,557,551</u>

	<u>2014</u>	<u>2013</u>
Operating revenue	\$ 2,813,375	2,786,941
Less operating expenses	<u>2,313,848</u>	<u>2,370,965</u>
Operating income	499,527	415,976
Non-operating revenue (expense)	<u>5,117</u>	<u>(196)</u>
Increase in net position	<u>\$ 504,644</u>	<u>\$ 415,780</u>

The Utility's investment in TCA is classified as follows as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Total investment in joint venture	389,020	329,166
Less amount restricted for debt service	<u>132,880</u>	<u>132,880</u>
Investment in joint venture - unrestricted	<u>\$ 256,140</u>	<u>196,286</u>

The City is also a partner in the Missouri Basin Municipal Electric Cooperative Association (MBMECA), a joint venture for the construction and maintenance of power lines from the power source to the Northwest Iowa Power Cooperative (NIPCO). The construction of the lines is accomplished by NIPCO and there are no actual dedicated lines, but rather an agreement which guarantees the municipalities the right to draw power over the lines at a raw power cost without transmission charges. The Utility owned a 4.63% and 4.67% share as of December 31, 2014 and 2013, respectively. Separately issued audited financial statements of the joint venture are available from MBMECA.

Summary financial information of MBMECA as of and for the years ended December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Assets	<u>\$ 9,904,506</u>	<u>9,419,051</u>
Liabilities	175,174	643,583
Equity	<u>9,729,332</u>	<u>8,775,468</u>
Total liabilities and equity	<u>\$ 9,904,506</u>	<u>9,419,051</u>
Operating revenue	\$ 1,901,376	1,681,218
Less operating expenses	<u>\$ 1,141,575</u>	<u>1,357,811</u>
Operating income	759,801	323,407
Other income	<u>69,249</u>	<u>66,632</u>
Increase in net position	<u>\$ 829,050</u>	<u>390,039</u>

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

The Utilities investment in MBMECA is classified as follows as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investment in joint venture	<u>\$ 456,774</u>	<u>409,458</u>

NOTE 4 – CAPITAL ASSETS

A summary of capital assets at December 31, 2014 and 2013 is as follows:

	<u>December 31, 2014</u>			
	Balance January 1, 2014	Additions	Retirements	Balance December 31, 2014
Capital Assets Being Depreciated:				
Buildings	\$ 190,782	-	-	\$ 190,782
Machinery, Equipment, Transmission and Distribution System	2,140,460	159,883	-	2,300,343
Vehicles	230,718	-	-	230,718
Office Equipment	23,323	2,295	-	25,618
Cable and Internet System	1,458,114	-	-	1,458,114
Telephone System	792,550	-	-	792,550
Substation	2,879,212	-	-	2,879,212
Total Capital Assets Being Depreciated	<u>7,715,159</u>	<u>162,178</u>	<u>-</u>	<u>7,877,337</u>
Less Accumulated Depreciation for:				
Buildings	146,058	2,922	-	148,980
Machinery, Equipment, Transmission and Distribution System	1,721,678	48,743	-	1,770,421
Vehicles	102,375	17,532	-	119,907
Office Equipment	20,318	1,723	-	22,041
Cable and Internet System	576,171	48,604	-	624,775
Telephone System	297,613	26,418	-	324,031
Substation	308,797	71,980	-	380,777
Total Accumulated Depreciation	<u>3,173,010</u>	<u>217,922</u>	<u>-</u>	<u>3,390,932</u>
Total Capital Assets, Net	<u>\$ 4,542,149</u>			<u>\$ 4,486,405</u>

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

	Balance January 1, 2013	Additions	Retirements	Balance December 31, 2013
Capital Assets Being Depreciated:				
Buildings	\$ 190,782	-	-	\$ 190,782
Machinery, Equipment, Transmission and Distribution System	2,106,361	34,099	-	2,140,460
Vehicles	224,677	27,666	21,625	230,718
Office Equipment	23,323	-	-	23,323
Cable and Internet System	1,458,114	-	-	1,458,114
Telephone System	792,550	-	-	792,550
Substation	2,879,212	-	-	2,879,212
Total Capital Assets Being Depreciated	<u>7,675,019</u>	<u>61,765</u>	<u>21,625</u>	<u>7,715,159</u>
Less Accumulated Depreciation for:				
Buildings	142,901	3,158	-	146,059
Machinery, Equipment, Transmission and Distribution System	1,675,547	46,131	-	1,721,678
Vehicles	110,618	13,382	21,625	102,375
Office Equipment	18,947	1,370	-	20,317
Cable and Internet System	527,568	48,604	-	576,172
Telephone System	271,194	26,418	-	297,612
Substation	236,817	71,980	-	308,797
Total Accumulated Depreciation	<u>2,983,592</u>	<u>211,043</u>	<u>21,625</u>	<u>3,173,010</u>
Total Capital Assets, Net	<u>\$ 4,691,427</u>			<u>\$ 4,542,149</u>

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT

A summary of changes in long-term debt for the years ended at December 31, 2014 and 2013 is as follows:

December 31, 2014

	Balance January 1, 2014	Issuances	Redemptions	Balance December 31, 2014
2013 Telecommunications Revenue Refunding Bonds	\$ 450,000	-	40,000	\$ 410,000
2008 Electric Revenue Bonds	2,660,000	-	30,000	2,630,000
2011 Electric Revenue Refunding Bonds	365,000	-	120,000	245,000
Totals	<u>\$ 3,475,000</u>	<u>-</u>	<u>\$ 190,000</u>	<u>\$ 3,285,000</u>

December 31, 2013

	Balance January 1, 2013	Issuances	Redemptions	Balance December 31, 2013
2013 Telecommunications Revenue Refunding Bonds	-	450,000	-	\$ 450,000
2008 Electric Revenue Bonds	2,685,000	-	25,000	2,660,000
2011 Electric Revenue Refunding Bonds	480,000	-	115,000	365,000
2004 Telecommunications Revenue Note	725,000	-	725,000	-
	<u>\$ 3,890,000</u>	<u>\$ 450,000</u>	<u>\$ 865,000</u>	<u>\$ 3,475,000</u>

Annual debt service requirements to maturity for the revenue notes are as follows:

Year Ending December 31,	Series 2011 Electric		Series 2008 Electric		Series 2013 Telecommunications		Total	
	Interest 0.90 – 2.30% Principal	Interest	Interest 3.10 – 4.85% Principal	Interest	Interest 0.7-2.4% Principal	Interest	Principal	Interest
2015	120,000	4,075	30,000	120,088	45,000	3,401	195,000	127,564
2016	125,000	1,438	35,000	118,827	45,000	3,210	205,000	123,475
2017	-	-	165,000	117,323	45,000	2,985	210,000	120,308
2018	-	-	175,000	110,475	45,000	2,715	220,000	113,190
2019	-	-	180,000	103,037	45,000	2,389	225,000	105,426
2020-2024	-	-	1,035,000	387,503	-	-	1,220,000	392,794
2025-2028	-	-	1,010,000	124,140	-	-	1,010,000	124,140
	<u>\$245,000</u>	<u>\$5,513</u>	<u>\$2,630,000</u>	<u>\$1,081,393</u>	<u>\$410,000</u>	<u>\$19,991</u>	<u>\$3,285,000</u>	<u>\$1,106,897</u>

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
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NOTES TO FINANCIAL STATEMENTS

The resolutions providing for the issuance of the above revenue capital loan notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a Sinking Fund for the purpose of making the note principal and interest payments when due.
- c) Monthly transfers equal to 25% of the monthly transfers to the Sinking Fund shall be made to the Reserve Fund until specified minimum balances have been accumulated. This Reserve Fund is restricted for the purpose of making principal and interest payments when there are not sufficient funds available in the Sinking Fund.
- d) Monthly transfers shall be made to the Improvement Fund until specified minimum balances have been accumulated. Amounts in this fund are restricted for the purpose of making principal and interest payments when there are insufficient funds in the Sinking and Reserve Funds, paying for extraordinary maintenance and repairs, and paying for capital improvements and related systems expenses.

During the years ended December 31, 2014 and 2013, the Utility was in compliance with the note provisions.

Restricted Note Funds

The Sinking Funds, Reserve Funds and Improvement Funds are combined and shown as Restricted Note Funds on the statements of net position as follows as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Funds maintained by the Utility	\$ 640,409	638,897
Restricted portion of investment in joint ventures	<u>132,880</u>	<u>132,880</u>
Restricted note funds	<u>\$ 773,289</u>	<u>771,777</u>

Total interest costs were \$138,634 in 2014 and \$161,436 in 2013.

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 6 – COMPENSATED ABSENCES

Utility employees accumulate vacation hours for subsequent use or for payment upon termination, retirement, or death. Employees can carry over no more than 160 hours of unused vacation time from one calendar year to the next. The Utility's approximate liability for earned but unused vacation was \$8,116 and \$5,602 as of December 31, 2014 and 2013, respectively. These amounts have been accrued and are reflected on the attached financial statements.

Utility employees earn sick and personal leave days for subsequent use. The maximum accumulation is 120 days (960 hours) of sick leave and 2 days (16 hours) of personal leave. Employees are not paid for unused sick or personal leave upon termination, retirement, or death. Accordingly, no accrual for unused sick or personal leave has been recorded on the attached financial statements.

NOTE 7 - PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual salary and the Utility is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2014, 2013, and 2012 were \$19,611, \$18,329, and \$17,574 respectively, equal to the required contributions for each year.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Sanborn Savings Bank, located in Sanborn, Iowa is the official depository of the Sanborn Electric and Telecommunications Utility. One of the officers of the bank is on the Board of Trustees of the Sanborn Electric and Telecommunications Utility.

NOTE 9 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts, errors and omissions, injuries to employees, natural disasters, and theft of, damage to and destruction of assets. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

NOTE 10 – REVOLVING LOAN FUND

On September 28, 2011, the Utility received a grant from the USDA Rural Development in the amount of \$176,000 under the Rural Economic Development Loan and Grant program. The Utility was required to match this grant with \$44,000 of Utility funds. The Utility was required to create a

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
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NOTES TO FINANCIAL STATEMENTS

revolving loan fund with the grant dollars and with the local match. Should the Utility decide to discontinue the revolving loan fund, the original grant is repayable to the USDA Rural Development.

With grant proceeds received from the USDA Rural Development Loan and Grant program, the Utility established a revolving loan fund in 2011. The Utility lent money from this fund to one local business in 2011, two businesses in 2013, and an additional three businesses in 2014. As of December 31, 2014 and 2013, the outstanding balance due to the Utility under this agreement was \$208,075 and \$215,007, respectively.

The Utility also has a bank account restricted specifically to make loans and receive loan payments with a balance as of December 31, 2014 and 2013 of \$12,061 and \$4,650 respectively.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 4 retired members in the plan. Participants must be age 55 or older at retirement.

The medical coverage is administered by Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit subsidy. The implicit subsidies result in an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The Utility's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utility, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utility's annual OPEB cost for the years ended December 31, 2014 and 2013, the amounts actually contributed to the plan, and changes in the Utility's net OPEB obligation.

	2014	2013
Annual required contribution	\$ 2,589	2,589
Interest on net OPEB obligation	104	104
Adjustment to annual required contribution	-	-
Annual OPEB cost	2,693	2,693
Net OPEB obligation, beginning of year	10,407	7,714
Net OPEB obligation, end of year	\$ 13,100	10,407

For calculation of the net OPEB obligation, the actuary has set the measurement date as January 1, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
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NOTES TO FINANCIAL STATEMENTS

between the actuarially determined funding requirements and the actual contributions for the years ended December 31, 2014 and 2013.

For the years ended December 31, 2014 and 2013, the Utility did not contribute to the medical plan.

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of December 31, 2014 and 2013 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	\$ 2,695	0%	7,714
December 31, 2013	\$ 2,693	0%	10,407
December 31, 2014	\$ 2,693	0%	13,100

Funded Status and Funding Progress. As of January 1, 2012, the most recent actuarial valuation date for the period January 1, 2014 through December 31, 2014 and January 1, 2013 through December 31, 2013, the actuarial accrued liability was \$27,940, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$27,940. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$225,890 and the ratio of the UAAL to covered payroll was 12%. As of December 31, 2014 and 2013, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the January 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the Utility's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate. Mortality rates are from the RP2000 Combined Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed based on national averages.

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
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NOTES TO FINANCIAL STATEMENTS

Projected claim costs of the medical plan are \$755 per month for retirees. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 12 – CONCENTRATIONS

For the years ended December 31, 2014 and 2013, one customer of the Utility accounted for approximately 20% and 20%, respectively, of the total electricity sales.

NOTE 13 - SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through, September 23, 2015 the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL - (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original and Final Budget	Variance Between Cash Basis and Final Budget
Receipts:					
Charges for Services	\$ 2,197,531	48,491	2,246,022	2,188,750	57,272
Use of Money and Property	11,602	-	11,602	20,000	(8,398)
Miscellaneous	157,476	(61,632)	95,844	847,500	(751,656)
Total Revenues	<u>2,366,609</u>	<u>(13,141)</u>	<u>2,353,468</u>	<u>3,056,250</u>	<u>(702,782)</u>
 Disbursements	 <u>2,150,923</u>	 <u>157,671</u>	 <u>2,308,594</u>	 <u>2,958,130</u>	 <u>649,536</u>
 Excess (Deficiency) of Receipts Over (Under) Disbursements	 215,686	 (170,812)	 44,874	 98,120	 (53,246)
 Other Financing Sources (Uses) Net	 <u>(98,658)</u>	 <u>-</u>	 <u>(98,658)</u>	 <u>(87,500)</u>	 <u>(11,158)</u>
 Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing (Uses)	 117,028	 (170,812)	 (53,784)	 10,620	 (64,404)
 Net Position at Beginning of Period	 <u>4,308,339</u>	 <u>(2,118,286)</u>	 <u>2,190,053</u>	 <u>2,452,607</u>	 <u>(262,554)</u>
 Net Position at End of Period	 <u><u>\$ 4,425,367</u></u>	 <u><u>(2,289,098)</u></u>	 <u><u>2,136,269</u></u>	 <u><u>2,463,227</u></u>	 <u><u>(326,958)</u></u>

See Accompanying Independent Auditor's Report

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –

**BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2014**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for their financial statements.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. The Utility utilizes only the business-type function. During the year, there were no amendments to the budget.

Disbursements were within budgeted limits during the year ended December 31, 2014.

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –

**SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN**

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
2012	Jan 1, 2012	\$ -0-	\$ 27,940	\$ 27,940	0.00%	\$ 181,866	15.4%
2013	Jan 1, 2012	\$ -0-	\$ 27,940	\$ 27,940	0.00%	\$ 208,000	13.4%
2014	Jan 1, 2012	\$ -0-	\$ 27,940	\$ 27,940	0.00%	\$ 225,890	12.4%

See Note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See Accompanying Independent Auditor's Report

OTHER SUPPLEMENTARY INFORMATION

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**SCHEDULES OF OPERATING REVENUES
FOR THE YEARS ENDED DECEMBER 31:**

	<u>2014</u>	<u>2013</u>
Electric Energy Sales:		
Residential	\$ 515,744	\$ 523,235
Residential - All Electric	187,188	175,003
Industrial	1,217,166	1,136,424
Commercial	190,524	165,120
Commercial - All Electric	19,692	17,973
Public Authorities	59,879	58,254
Security Lights	<u>1,367</u>	<u>1,147</u>
Total Electric Energy Sales	<u>2,191,560</u>	<u>2,077,156</u>
Other Sales:		
Labor	675	1,390
Other Revenues	<u>5,296</u>	<u>8,068</u>
Total Other Sales	<u>5,971</u>	<u>9,458</u>
Total Sales	<u><u>\$ 2,197,531</u></u>	<u><u>2,086,614</u></u>

See Accompanying Independent Auditor's Report

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31:**

	<u>2014</u>	<u>2013</u>
Power Production Expenses:		
Plant Labor	\$ 39,802	\$ 38,888
Supplies	21,164	7,148
Purchased Power	1,329,847	1,263,545
Total Power Production Expenses	<u>1,390,813</u>	<u>1,309,581</u>
Distribution Expenses:		
Supervision Labor	61,658	59,347
Station and Line Labor	41,459	39,964
Miscellaneous Distribution	20,770	8,546
Street Lighting and Metering	2,103	979
Total Distribution Expenses	<u>125,990</u>	<u>108,836</u>
Commercial Expenses:		
Accounting and Collection Labor	58,321	58,984
Supplies	1,911	1,556
Total Commercial Expenses	<u>60,232</u>	<u>60,540</u>
Sales Expenses:		
Merchandise and Labor for Resale	<u>71</u>	<u>155</u>
Administrative and General Expenses:		
Advertising	3,081	4,041
City Hall	6,140	4,958
Depreciation	217,922	211,043
Dues and Subscriptions	10,198	4,721
Employee Benefits	86,432	72,923
Insurance	15,807	17,414
OPEB Expense	2,693	2,693
Meeting	2,009	3,166
Office Supplies	5,255	5,785
Outside Services	23,058	38,885
Salaries and Wages	36,770	34,713
Transportation	10,083	6,887
Miscellaneous General	15,735	32,112
Total Administrative and General Expenses	<u>435,183</u>	<u>439,341</u>
Total Operating Expenses	<u><u>\$ 2,012,289</u></u>	<u><u>1,918,453</u></u>

See Accompanying Independent Auditor's Report



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of
Sanborn Electric and Telecommunications Utility
Sanborn, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements for the major fund of Sanborn Electric and Telecommunication Utility (the Utility), a component unit of the City of Sanborn, Iowa, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements and have issued our report thereon dated September 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency listed as I-A-14 on the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no

instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Sanborn Electric and Telecommunication Utilities' Response to Findings

The Utility's response to the findings identified in our audit is described in the accompanying schedule of findings. The Utility's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

T.P. Anderson & Company, P.C.

September 23, 2015

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2014**

Part I: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT CONTROL DEFICIENCIES:

I-A-14 Segregation of Duties – There is a lack of segregation of duties with respect to the accounting functions.

Criteria - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted the same employee performs most of the accounting functions.

Cause – Sanborn Electric and Telecommunications Utility is not a large entity; therefore their staff includes a small number of office employees.

Effect – The lack of proper segregation of duties is a material weakness that may result in a material misstatement of the financial statements, and provides greater opportunity for fraudulent activity to go undetected.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – This is difficult with the minimal number of staff but we will continue to work on better segregation of duties.

Conclusion - Response accepted.

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

Part II: Other Findings Related to Statutory Reporting:

- II-A-14 Certified Budget - Disbursements during the year ended December 31, 2014 were within the budgeted limits.
- II-B-14 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-14 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-14 Business Transactions – Business transactions between the Utility and Utility officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description
James P. Craven, Chairman President, Sanborn Savings Bank	Sanborn Savings Bank Utility Depository

The Code of Iowa provides certain exceptions to the prohibition of transactions with related parties. Chapter 362.5(3)(b) of the Code of Iowa lists the “designation of a bank or trust company as a depository, paying agent, or for investment of funds” as an exception to the Related Party Transaction rules. The transactions with the Board Chairman appear to qualify under this exception, and therefore do not represent a conflict of interest.

- II-E-14 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-14 Board Minutes – No transactions were noted that we believe should have been approved in the Board minutes but were not.
- II-G-14 Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- II-H-14 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.